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## THE LAST BUST

by Frank Chodorov

Wall Street and the Kremlin are in agreement on one thing, and that is that sooner or later a depression will hit the country. The Kremlin is hopeful, Wall Street is fearful, and only the time of arrival is in dispute. Yet, both may be wrong. There is a possibility that the disruption of our economy along the lines of previous depressions may not occur. Some of our foremost economists think so.

But first, we should make clear what is meant by a depression. In common usage the word connotes a rapid decline of all values; suddenly, and apparently without warning, the worth of all goods and representation of goods shrinks, in terms of money. Buyers disappear, sellers become panicky and offer their wares or securities at less and less. Production slows up. The shrinkage of asset-values causes business houses to fail; there is much idle capital, many idle men.

Such a thing cannot happen in Russia. Why? Simply because precedent to the depression there must have been a period of rising values, and that is impossible where private property is prohibited. People do not anticipate future enjoyment if they know that their savings will be confiscated, whether by the State or by brigands. Their inclination is to produce only as much as they are reasonably certain of being able to consume, which is a hand-to-mouth economy, with no thought of the morrow. Under the circumstances, there is no saving and no investment, no bidding up of values. Russia is immune from ups as well as downs, from hope as well as from disappointment.

The expectations of both Wall Street and the Kremlin rest on the fact that the law in this country still pays some respect to the principle of private property. The Kremlin is quite sure we have speculated ourselves into a fall, Wall Street believes our price level must attain higher ground before it happens. Both, however, ignore the possibiity of a constantly rising price level. Such a condition seems impossible in the light of experience, but in the light of modern economic theory it is at least conceivable.

II

Some support of this strikingly new theory can be drawn from a study, put out by Dun & Bradstreet, Inc., of the relation between wholesale prices and bankruptcies. This booklet, by Roy A. Foulke, does not

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maintain that an epidemic of bankruptcies, which characterizes a depression, can be avoided by inflationary measures; it simply points up the fact that as prices rise the percentage of business failures declines, and vice versa. It supports its thesis by figures and historical evidence; it tells how during and immediately after each of our five major wars, all carried on by deficit financing, prices rose and business managed to keep its collective head above water until the subsequent deflation set in. That is all; yet the eminent economists who hold that the deflation can be avoided by a constant devaluation of money could turn this evidence to their support.

For if bankruptcies can be held down to the minimum due to inefficient management, if they do not become widespread, it is evident that a general collapse of our economy would not occur.

Well, then, how can we keep prices running uphill? We cannot depend on the market place to supply the power; on the contrary, inherent in the market place is a tendency to pull prices down. If, for instance there is a great demand for television sets, the price per set will be high; but the high price induces greater production and the influx of sets drags the price down. In order to keep the price high it is necessary to prevent the making of more sets. Applying this principle, we see that to keep the general price level tilted upwards, we must devise a method for curtailing production. We must checkmate the market place.

Merely increasing the amount of money in circulation cannot prevent the levelling off of prices. During each of our wars the government went in for printing-press money -- which is what is meant by deficit financing. More money brought on more buying and prices went up. But, the increased production subsequently turned the price level downward and the country suffered a bust after World War I. The perfect formula for preventing depressions, as worked out by our brilliant planners, demands the holding down of production while the volume of money is enlarged. These brilliant ones can point to the fact that World War II has not produced a bust simply because the State has not stopped siphoning goods off the market, even while it increased the amount of money *in circulation.*

The frustration of Russia's hope and the liquidation of Wall Street's fears rest on the application of this magic formula. It should be mentioned that the market place is incapable of administering this formula to itself; in fact, the market place reacts to it like a child does to castor oil. It must be coercively administered, and coercion is the prerogative of government. Our present government seems to have

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accepted the therapeutic value of the formula and is well on the way to administering to the country a full dose of it. As for printing money, that is taken care of by the monetization of our huge national debt, which will be conveniently enlarged by more deficit financing; as for holding production in leash, the diversion of labor from the making of things people want to other pursuits is proving effective. A glut of price-depressing shoes is impossible if many shoemakers make footwear for soldiers only, and the more desks the government provides for bureaucrats to rest their feet on, the more support for the price of desks.

In short, the expansion of government is the assurance of a rising price level and the preventive of depression. It is in the light of this economic discovery that we must evaluate our national policy. The importance of the Marshall Plan, or Point IV, is not so much in its effect on our international relations as its effect on our market place; and, much as we dislike war, we must not forget that the preparation for it serves as a shoring of our price structure. Discussion of national policy falls far short of a reality if it does not take into account the formula for avoiding depression.

III

Skeptics might ask, how long can this go on? Is there no limit to the upward climb of prices? These skeptics, usually called "conservatives", or even "fascists", suffer from the "long run" illusion. Lord Keynes, that genius of modern economics, made short work of their criticism by pointing out that in the long run we will all be dead. Nothing could be truer. He might have added that when the long run becomes the present, a new long run will be invoked, and while ingenious economists apply themselves to whatever happens the skeptics will still be worrying about some future that never happens.

How long is the long run? As long as memory, as short as readjustment to new conditions; a generation. Many of us can remember when a glass of beer, supplemented with ample free lunch, could be had for a nickel; now the beer alone, and a much smaller portion, costs twice that much. Undoubtedly, this price change has resulted from the increase of money in circulation, thanks to the government's printing presses, plus a diminution of the per capita production of beer effected by the diversion of possible brewers into the bureaucracy. The beer drinker has learned to quench his thirst on less beer.

That is the point; the long run effect of the depression-preventing, despite its promise of abundance, is the adjustment of Society to a lower living standard. Keeping the price level tilted upward teaches

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the public the virtue of abstinence. The consumer has more money, but its purchasing power is less just because there is more money around -- to say nothing of the diminishing quantity of purchasable goods. He makes his peace with necessity.

As abstinence becomes a habit, hope subsides. Future fields look no greener than those about us, and we do not get ourselves into a speculative or anticipatory froth. We are talking about the long run; it may be difficult just now to picture an America conditioned to a life of fewer gadgets and lower expectations. But England, whose economic tradition is akin to our own, easily acquired the habit of "austerity", and it was in England that this non-boom-non-bust formula was invented and put into operation. Maybe America, reverting to its Horatio Alger heritage, will kick out the formula (which is sometimes called the "security" formula) before it is similarly mutated.

IV

One more step in this infallible cure for depressions needs mentioning. It might be called the crisis. At some point in the perpetual inflationary process the public becomes surfeited with money; it wants no more of it; it demands goods. No one, not even the most expert in modern economic theory, can foretell the exact time for the coming of that crisis. It rather creeps up on Society. Quite without warning, the worker realizes that his pockets are inadequate for his wages and yet he is poor. He loses faith in money.

That is the final bust. It is a serious situation, but not quite as catastrophic as the old fashioned depression. Moreover, the magic economists have a medicine for keeping the fever in check. The money is arbitrarily devalued and apparently infused with a greater purchasing power. But since the amount of goods in the market place is not permitted to increase -- the bureaucracy would not think of such a thing -- the net result of monetary devaluation is that the worker's pockets do not bulge as much as they did. His money now has greater purchasing power, in theory; the opportunity to exercise that power is still lacking. And so, he sinks into the station provided for him by benevolent government and wise economists, in complete confidence that nevermore shall he experience boom or bust.

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Not Merely Gossip *A Supplement to* Human Events Vol. VII, No. 47

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by Frank Hanighen November 22, 1950

TEMPER OF THE VICTORS: Last week end, listening to private talk of Republican leaders in the Middle West, we found them worried by the gigantic problems ahead, instead of enjoying contemplation of battles won in the election. They displayed a different state of mind than in the aftermath of the 1946 landslide, when all was exultation and easy assumption of a victory-to-come in 1948. Now they seemed broodingly conscious of the international as well as domestic dangers before us.

One political figure, whose own performance at the polls left nothing to be desired, dwelt constantly on the menacing foreign situation. In his conversation, he aired doubts about the practicality of our plans for defense of Western Europe, and fear of military disaster. But, most of all, he emphasized the crushing burdens which the future may impose on our economy. Sharply ascending defense expenditures, with inevitable controls on wages and prices -- this picture prompted him to ask: Will the people indefinitely accept the sacrifices involved? We suspect that this mood will become more general and will deepen as time goes on, and that even the short session which commences November 27 will witness a very sober-minded Congress.

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EXAMINATION OF RE-EXAMINATION: Re-examination of economic and military aid to European countries, including "aid to backward areas", is being placed at the top of the agenda for the new Congress. Powerful voices will be raised for a complete new study, including those of Taft, Byrd, George and Milliken. Many House members will be equally vociferous, but the main scene of action will be the Senate.

There is growing dissatisfaction over the failure of European countries to match the U.S. contribution to their rearmament with "some similar action of their own". While Truman says Atlantic Pact members must match our efforts, and thus accept recommendations of the Joint Chiefs of Staff, the response is distinctly disappointing. Proposed programs abroad are either not large enough for safety in the view of our defense officials, or calculated to be too slow in achieving.

The task of rearming this country is even more stupendous than Pentagon officials have publicly admitted. In addition to an armed strength of 3 million trained men, the objectives for new planes, food, clothing and field armament, are being revised upward. Besides, ships that are being taken out of mothballs will have to be remodeled; the slower ones are deemed to be sitting ducks for today's submarines.

Aircraft production now is about one-twelfth of what it was when Pearl Harbor was attacked, and many of the armament needs are still in the blueprint stage. Failure of European countries to aggressively take up rearmament despite frantic urging by this country is disconcerting to Pentagon officials, and is stirring a fear that the U.S. would have to do most of the job itself. And there is growing opposition in Congress to spreading U.S. armament among foreign countries which are showing small disposition to actively move to check the threat of Soviet aggression.

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STRAW IN THE WIND: The Capital is agog with talk -- backed by no little objective evidence -- that the Washington Post, one of the outstanding national dailies which have supported the Fair Deal, is in process of changing its hitherto "liberal" policy. It is rumored that Mr. Herbert Elliston, its editor, has offered his resignation. Mr. Elliston has been one of the strongest supporters of -- some say, also "the inspiration of" -- the Administration's Far Eastern policy.

Since November 7, readers have noted a different emphasis in the Post's news stories, and some surprising new editorials. One of the latter was the Post's re-

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buke of Dean Acheson for his speech attacking Senator Taft for "re-examinism". Formerly, the Post had been a staunch defender of the Secretary of State. It would be a mistake to say that the Post has had a completely Fair Deal policy in the past few years; some policies contrary to the more extreme Fair Deal line have found sympathetic expression in its columns. But so marked has been the process of change towards the Right in the past ten days, that many wonder if this journey to Damascus will be completed ere long.

As for the reason for this shift: it is believed that Mr. Eugene Meyer, owner of the publication has been discontented with his paper's policies for some time. Then came the election results; and last week, at a banquet of national business leaders, Mr. Meyer received from friends some reproaches on his sheet's support of the Fair Deal and hearty exhortations to "follow the election returns".

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EUROPEAN BACKDROP: A friend just passed on to us an interesting bit: at the big party in the Soviet Embassy here on November 7, French diplomats were very much in evidence. We sourly added this news to the remarks of a well-informed American citizen embodied in a letter from Paris, just arrived today:

"There are limits to putting pressure on the French for military collaboration. What you in Washington overlook frequently is the deep stratum of historical memories, of wounds never healed, or prejudices seemingly justified by precedent, which make up Western Europe. Of course, we can withhold $3 billions from the French. But we may drive them into considering the alternative of a rapprochément with Russia. (Government agencies here are full of Commies and fellow-travellers who want just that.) In other words, the present pro-American Government setup might be overthrown and an anti-American one put in."

And, with news about the German elections which show a trend against rearmament, we found the following (from the same letter) very unhappy reading:

"As for our powers of blackmailing the present German Government into military collaboration, such powers are limited too. Where will that get us? Cutting down on supplies and making the Germans 'uncomfortable'? Why, that would just put the West Germans on the same footing as the highly uncomfortable East Germans. As a result, they would have nothing to lose by making up with the Russians or at least sticking out for 'neutrality'.

"You know my view on the whole mess: German rearmament is a terrible risk, but no German rearmament is sure catastrophe. Tragic alternatives. We are on the spot."

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THE AFTERMATH FOR LABOR: In the election's aftermath Mr. Truman is turning out to be a severe disappointment to the big union leaders who have aimed at controlling voices in new defense agencies, and in the administration of man-power controls. But perhaps they were a disappointment to him, too, in the way industrial states voted; he hasn't said. What the labor spokesmen have wanted in each case was the choice of one of their own number, and not some sympathetic outsider, to head up these agencies. They were prepared to enforce this formula of naming their own men to top jobs on the assumption that they would be successful in the elections.

---- Some Democratic Party chieftains in appraising the election's outcome have come up with this formula: (1) More responsible Party leadership must be established in such states as Ohio, Indiana and Illinois, and (2) Mr. Truman must identify himself less closely with the one economic group, labor, and reach out to include farmers, white collar workers and small business. They charge their defeats to the policy of tying up closely with one group of labor, and allowing labor's big bosses to call the shots in state campaigns.

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---- Senator Murray (D., Mont.) will become chairman of the Senate Labor committee in the next Congress in the place of Senator Thomas (D., Utah), defeated by 22,000 votes. In this change union leaders gain probably their most substantial victory in the recent election. While Thomas has been friendly to the unions in his 18 years in the Senate, he stated several months ago that union leaders preferred Murray to himself as chairman of the Senate committee. The unions gave him no campaign financial aid. As for the GOP minority on the Labor committee, there is talk of placing newly-elected Senator Francis Case (S.D.) to the place left vacant by Donnell's defeat. Case authored a labor bill in the House in 1946 which was vetoed by Truman.

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THE GORDON GRAY PLAN: Edna Lonigan writes -- The Gray Report signals the transformation of ECA, from a purely economic project to one of military planning in the economic field. Grants for "technical assistance" -- Mr. Gray proposes -- should be raised to half a billion a year for several years, apart from "emergencies". Private investment is to be kept securely under Governmental control through tax exemptions, Government guarantees and investment treaties. In return the investors are presumably to accept little "Wagner Acts" wherever they operate.

The military characteristics of State planning are more in evidence in the Gray Report than in the Marshall Plan literature, presumably because the climate today is more militaristic (which we should not confuse with defense). Mr. Gray says that the North Atlantic Planning Agencies will try to avoid "an unchecked scramble for supplies", (that is, competition) by a system of priorities under supranational administration. They will also introduce a "system for guiding supplies of scarce materials among the free nations", that is, rationing. They will control the "flow of goods" and contract for long-term production of goods within the member nations.

The U.S. must encourage "other countries" to adopt sound currencies (but who is to encourage us?). The United States must eliminate "unnecessary barriers to imports", or tariffs as they used to be called in days of less elegant language. We must also "adjust" our agricultural price supports and surplus programs so that they will not burden world trade. That sounds like a new Brannan Plan. We should, of course, join the ITO and give the President power to reduce tariff rates unilaterally when he thinks there is an emergency. We should stop the procurement policy of preference for American goods in government purchasing.

Our loans must be "channelled to those areas and for those purposes where reasonable performance in the political and economic fields can be achieved". If that is not the new technocratic imperialism, what is it?

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RE-EXAMINATION OF HISTORY: Revisionism ("how-we-really-got-into-it") has apparently won a victory by breaching the inhospitable wall of the standpat American Historical Association. That body will hold a meeting in Chicago during the latter part of December and one of the speakers will be Professor Charles C. Tansill, whose views, critical of our entrance into both World Wars, are well known.

Indeed, the session of December 29 will deal with the subject of "American Entry into World War II", and Professor Dexter Perkins of the University of Rochester is scheduled to talk on "The Roosevelt Foreign Policy and Public Opinion, with some Commentary on Revisionist History". This particular session will be chaired by Professor Samuel Flagg Bemis of Yale, who is scarcely sympathetic with the revisionists (see his recent negative review of William Henry Chamberlin's America's Second Crusade, in the New York Times Book Review). But, on the other hand, Dr. Harry Elmer Barnes, sometimes called the "Father of Revisionism", will be present at the Chicago meeting, and is expected to provide fireworks. Dr. Barnes' latest contribution to Revisionist literature is his pamphlet Rauch on Roosevelt: A Study in Appearance and Realities.

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# Book Events

The Federal Bureau of Investigation, by Max Lowenthal. New York: William Sloane Associates, Inc. $4.50. Reviewed by Walter Trohan.

By mysterious design, best known to the author and publisher, copies of this book sprouted on the desks of Members of Congress and Federal jurists on the heels of a letter from a Sloane official stating "this unbiased and profoundly conservative approach" would lead to some startling conclusions on the FBI. The dust jacket hails Lowenthal as "a conservative in the most profound sense" and asserts he does not "color his material, editorialize, or draw conclusions".

Now because the book adds up to an attack on the FBI, which can be expected to be a standard reference for years, it is fitting that these claims to conservatism and objectivity be examined. It is altogether proper and conservative to fret over the possibility that a Federal police force can grow into an arm of terror in a police state. When such fears parallel Moscow radio attacks on the FBI and writings of notorious Communist fronters, one can ask: "Who's conservative now?"

Mr. Lowenthal is a wealthy New York lawyer, who has been weaving in and out of Washington in various capacities for 30 years. The most detailed biography of Harry S. Truman to date (The Man of Independence) identifies him as the man who weaned the President from the realistic thinking of Pendergastism to the rarefied liberalism of the late Justice Louis D. Brandeis. Last September Lowenthal acknowledged varying degrees of intimate acquaintance with 22 known Communists, red spies and notorious fellow travellers, including Alger Hiss, John J. Abt, Charles Kramer and Lee Pressman, who is even now seeking to identify himself with conservatism. Lowenthal told the House Un-American Activities Committee: "The number of people I didn't know were members of the Communist party is something that makes my hair stand on end." So much for the new conservatism.

And now to objectivity. The jacket claims that for every quote questioning the practices or efficiency of the FBI, Lowenthal quotes the FBI reply or replies of FBI defenders, "including, of course, J. Edgar Hoover". This reviewer learned that not one question was addressed to Hoover or the FBI by Lowenthal. And it is difficult, if not well nigh impossible, to find a kind word for the FBI in the book. However, it reeks with criticism, most carefully traced to source in the most elaborate set of source notes in many a year. And these are most carefully edited to fit the slant against the FBI.

Much is made of an investigation of the FBI by Robert H. Jackson when the Supreme Court Justice was Attorney General. Not one word is included from his report, which emphasized the fact that the acts of every FBI agent are subject to examination by defense lawyers. Jackson said that if civil liberties are "in danger in this country, it is not by the FBI" and reported that with a record of 96 per cent convictions in cases brought by the FBI "not one case has been reversed by an appellate court because of 'third degree' or other improper treatment of defendants". Among many other editings "against" the FBI there is a quotation of an attack by former Senator Carl Hatch, but no mention of a virtual retraction two days later. Thus kind words for the FBI die under the Lowenthal scissors.

Lowenthal belabors the FBI as a menace to freedom of speech and freedom of thought. At the same time he criticizes the FBI for not being efficient enough, holding that the atomic spy case and the case of his friend Hiss should have broken sooner. In his brief, which is heavy reading, he cites a gamut of cases from Sacco-Vanzetti and the World War raids of A. Mitchell Palmer to the Judy Coplon affair as offering evidence against J. Edgar Hoover and the FBI today.

The verdict of this reviewer on Lowenthal is "not guilty" of conservatism and "guilty" of objectivity "against" the FBI.



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